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January 15, 2002

PUBLIC DOCUMENT

Mr. Andrew Stephens
Director for Steel Trade Policy
Office of the United States Trade Representative
Trade Policy Staff Committee
600 17th Street, N.W.
Washington, D.C. 20508

Re: Response to Questions by Trade Policy Staff Committee Regarding Request for Exclusion of Hot-Rolled Sheet for Coiled Tubing Filed on Behalf of Sumitomo Metal Industries, Ltd. and Quality Tubing, Inc. (X-025)

Dear Mr. Stephens:

On behalf of Sumitomo Metal Industries, Ltd. ("SMI") and Quality Tubing, Inc. ("QTI"), we are submitting this response to questions posed by the Trade Policy Staff Committee ("TPSC") regarding SMI's and QTI's request to exclude hot-rolled sheet for coiled tubing from any import relief ordered by the President in the Section 201 investigation of *Certain Steel Products*.

SMI and QTI are prepared to answer any additional questions the TPSC may have regarding their exclusion request.

Sincerely,

Robert C. Cassidy, Jr.

Attachments

SECTION 201 INVESTIGATION OF CERTAIN STEEL PRODUCTS

RESPONSE TO QUESTIONS RAISED BY THE TPSC REGARDING EXCLUSION OF HOT-ROLLED SHEET FOR COILED TUBING

Members of the Trade Policy Staff Committee ("TPSC") inquired about the effects of extending Section 201 relief to hot-rolled sheet for coiled tubing. Simply stated, those effects would be severe and far-reaching. As discussed below, Section 201 relief would negatively impact not only domestic manufacturers of coiled tubing that purchase this specialized hot-rolled sheet, but also the well-service companies (*e.g.*, Halliburton and Schlumberger) that purchase coiled tubing and the oil and gas operating companies (*e.g.*, BP-Amoco and Exxon-Mobil) that specify coiled tubing for deepwater projects.

A. Coiled Tubing is a Unique Product With Critical Deepwater Applications.

Coiled tubing is used in deep, high-pressure oil and gas well servicing. The tubing is unique because it must be a single piece of tube and can reach lengths of up to 30,000 feet. Coiled tubing provides a safer, faster, and less expensive means of well servicing than conventional work over rigs and snubbing units. Unlike these alternative technologies, coiled tubing also allows for marginal oil and gas recovery.

Quality Tubing, Inc. ("QTI") and Precision Tube Technology -- both U.S. companies -- are the only manufacturers of coiled tubing in the world. QTI and Precision purchase the hot-rolled sheet needed to produce coiled tubing from Sumitomo Metal Industries, Ltd. ("SMI") of Japan and Usinor of France, respectively.[1] Domestic consumers of coiled tubing include service companies such as Halliburton, Schlumberger, and BJ Services.

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[1] SeaCAT produces umbilical tubing for deepwater use from a hot-rolled steel product supplied by NKK Corporation.

Oil and gas operating companies have come to rely increasingly on the coiled tubing services provided by well-service companies as a result of a high level of confidence in coiled tubing. The product is now routinely run in high-pressure, high-temperature wells of depths exceeding 20,000 feet. Among other places, coiled tubing is now used in the Gulf of Mexico, where BP-Amoco and Exxon-Mobil are currently specifying coiled tubing for use in deepwater, well-intervention work.

B. Imposing a Higher Tariff or Quota on Imports of Hot-Rolled Sheet for Coiled Tubing Would Negatively Impact the U.S. Coiled Tubing Industry and Oil and Gas Operating Companies.

Extending Section 201 relief to imports of hot-rolled sheet for coiled tubing would negatively impact domestic manufacturers of coiled tubing, as well as the well-service companies that purchase coiled tubing and the oil and gas operating companies that specify it for use in well-intervention work.

Imposing a higher tariff or quota on imports of hot-rolled sheet for coiled tubing would have the immediate effect of increasing the price of coiled tubing. That is because comparable material is not available from domestic sources -- domestic producers are simply not capable of manufacturing the hot-rolled sheet to the high standard of quality needed to insure tubing reliability and longevity in the field. The hot-rolled sheet needed to produce coiled tubing for use in deep, high-pressure wells must have high surface quality, tight dimensional tolerances, and high yield, tensile and elongation properties. If domestic steel is used, the life expectancy (as measured in fatigue cycles) of the coiled tubing will be reduced, thereby increasing the service company's cost of goods.

Nor can domestic producers manufacture the tapered hot-rolled strip that QTI requires to produce its patented True Taper® coiled tubing. (A description of True Taper® coiled tubing and the tapered hot-rolled strip required to produce this tubing is provided in Attachment A.)

SMI has worked with QTI for over 15 years to develop the hot-rolled sheet needed for QTI's product, including hot-rolled tapered strip. Oil and gas operating companies understand the evolutionary development of the coiled tubing they are specifying for deepwater projects. These companies will not specify coiled tubing manufactured from domestic materials that lack the technical track record and proven performance of the foreign materials that have been developed over the course of almost two decades.

Apart from increasing the costs of service companies that purchase coiled tubing and operating companies that specify it for use in deepwater projects, the higher price of coiled tubing resulting from Section 201 relief will have severe repercussions throughout the coiled tubing industry. Coiled tubing will lose its competitive advantage over other well-servicing technologies, such as conventional work over rigs and snubbing units. Even though these technologies provide less safe means of well servicing and do not allow for marginal recovery of oil and gas, the price rise in coiled tubing would induce some companies to substitute these technologies for coiled tubing. The business lost to alternative technologies, in turn, would result in lower levels of employment throughout the entire U.S. coiled tubing industry -- *i.e.*, layoffs at the companies that manufacture coiled tubing (QTI and Precision), at the well-service companies, and at the companies that supply equipment for coiled tubing.

Finally, the higher cost of coiled tubing used in domestic oilfield applications could increase the United States' dependence on foreign sources of oil and gas.

C. Extending Section 201 Relief to Imports of Hot-Rolled Sheet for Coiled Tubing Would Not Benefit the Domestic Steel Industry.

The harm that would befall the U.S. coiled tubing industry and oil and gas operating companies from imposing Section 201 relief on imports of hot-rolled sheet for coiled tubing would not be offset by any gain to the domestic steel industry. The reason is simple: the relatively low volumes of hot-rolled sheet purchased by QTI on an annual basis, coupled with the substantial development effort required to manufacture the product to QTI's specifications, eliminate any incentive for the domestic industry to supply this product.

Domestic steel producers recently displayed their unwillingness to attempt production of this specialty hot-rolled sheet. During the antidumping investigation of *Certain Hot-Rolled Flat-Rolled Carbon-Quality Steel Products from Japan*, QTI approached four domestic producers about manufacturing hot-rolled sheet for coiled tubing: National Steel Corporation, U.S. Steel, Steel Dynamics, and Gulf States Steel. Each of these producers declined to bid on QTI's specifications. The domestic producers subsequently agreed to exclude this product from the scope of the antidumping investigation. See Attachment B. There is no reason to believe that domestic steel producers would be any more willing -- or able -- to produce hot-rolled sheet for coiled tubing if the President were to impose Section 201 measures on this product.

In summary, extending Section 201 relief to imports of hot-rolled sheet for coiled tubing would harm the U.S. coiled tubing industry without providing any concomitant benefit to the domestic steel industry. For that reason, and all of the reasons discussed in our underlying exclusion request, hot-rolled sheet for coiled tubing should be excluded from any import relief ordered by the President.

Respectfully submitted,

WILMER, CUTLER & PICKERING

Robert C. Cassidy, Jr.
John D. Greenwald
Leonard M. Shambon
John-Alex Romano

Counsel for Sumitomo Metal Industries, Ltd.

ATTACHMENT A

TRUE TAPER COILED TUBING

Virtually all coiled tubing involves one or two segments of tapered strip which join different wall thicknesses into one long tube string. The purpose of tapered strip is to remove overall string handling weight on deep well strings without losing pressure handling capabilities.

Quality Tubing, Inc. ("QTI") has a patent and trademark on "True Taper" coiled tubing. Sumitomo Metal Industries, Ltd. ("SMI") manufactures eight different gauge combinations of strip for QTI's True Taper coiled tubing by controlling the hot strip mill thickness tolerances to produce a hot-rolled sheet containing a specific gauge (*e.g.*, 0.125") for the first 10% of the coil length. SMI then gradually and consistently shifts the rolled thicknesses over the next 80% of the coil length to another specific gauge (*e.g.*, 0.150") for the last 10% of the coil. The tapered section is maintained at +/- 0.005" of the theoretical straight line thickness change between the constant gauge ends. The mechanical properties must meet requirements throughout the entire strip length. The rigorous gauge control is the basis for QTI's patent on True Taper tubing.

Approximately 10% of SMI's production of four (out of six) specifications of hot-rolled sheet in coils is produced in True Taper gauges. QTI requires the same producer to supply hot-rolled coils for both True Taper and regular (straight wall) strip because the two strips must have identical chemical compositions. Otherwise, QTI could not count on proper welding and reliable fatigue life, which are critical characteristics of coiled tubing.

In QTI's experience, domestic mills will have difficulty producing uniform mechanical properties on tapered strip because of the complex matrix of rolling temperatures, cooling rates, and varying rolling mill controls involved in the production process. SMI has a unique technical expertise in this area and a long history of producing hot-rolled coils for QTI. SMI is able to call up a rolling profile in its production computer, which will automatically control all aspects of the hot strip mill production based on a slab's weight and physical dimensions.

Subjecting SMI's hot-rolled coils to Section 201 relief would force QTI either to switch to a domestic supplier without sufficient time to test and develop a fatigue model, or to absorb a tariff-based price increase. Either scenario would affect QTI's customers, including Halliburton, which rely on QTI to supply competitively priced and reliable coiled tubing, and which have invested in the appropriate handling equipment for this tubing.

ATTACHMENT B

DEWEY BALLANTINE LLP

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January 6, 1999

Inv. Nos. A-588-846
A-351-828
A-821-809
C-351-829
Investigations
Total Pages: 6

PUBLIC VERSION

DELIVERY BY HAND

The Honorable William M. Daley
Secretary of Commerce
Attn: Import Administration
Central Records Unit, Room B-099
U.S. Department of Commerce
Pennsylvania Avenue and 14th Street, N.W.
Washington, D.C. 20230

The Honorable Donna R. Koehnke Secretary
U.S. International Trade Commission
500 E Street, S.W.
Washington, DC 20436

Re: Antidumping Duty Investigations of Certain Hot-Rolled Flat-Rolled Carbon-Quality Steel Products from Brazil, Japan, and the Russian Federation; Countervailing Duty Investigation of Certain Hot-Rolled Flat-Rolled Carbon-Quality Steel Products from Brazil

Dear Secretaries Daley and Koehnke:

On behalf of Bethlehem Steel Corporation, U.S. Steel Group, a unit of USX Corporation, Ispat Inland Steel, LTV Steel Company, Inc., National Steel Corporation[1], California

[1] National Steel is not a petitioner in the case regarding Japan.

Steel Industries, Gallatin Steel Company, Geneva Steel, Gulf States Steel, Inc., IPSCO Steel Inc., Steel Dynamics, and Weirton Steel Corporation, Petitioners in the above-captioned investigations, we request that the U.S. Department of Commerce (the "Department") amend the scope of these investigations to exclude certain hot-rolled steel sheet used to produce coiled tubing.

On November 4, 1998, Itochu International, Inc. ("Itochu") requested that certain hot-rolled steel sheet used to produce coiled tubing, imported by Itochu and produced in Japan by Sumitomo Metal Industries, Ltd., be excluded from the scope of these investigations.[2] Petitioners agree that the products described below should be excluded from the scope of these investigations:

Sumitomo Grade Cr2-CO

C	MN	P	S	Si	Cr	Cu	Ni
0.10-0.14	0.90 Max	0.025 Max	0.009 Max	0.30-0.50	0.30-0.70	0.20-0.40	0.20 Max

Width 44.80" Max
Thickness 0.063-0.198"
Yield Strength 50,000 ksi Min.
Tensile Strength 70,000-88,000 psi

[2] The following four products, described in detail, should be excluded from the scope of these investigations because such imports do not harm the U.S. industry.

Sumitomo Grade QT-90,000

C	Mn	P	S	Si
0.10-0.16	0.70-0.90	0.025 Max	0.006 Max	0.30-0.50
Cr	Cu	Ni	Mo	
0.50-0.70	0.25 Max	0.20 Max	0.21 Max	

Sumitomo Grade QT-100,000

C	Mn	P	S	Si
0.10-0.14	1.30-1.80	0.025 Max	0.005 Max	0.30-0.50
Cr	Ni	Cu	V(wt.)	Cb
0.50 0.70	0.20 Max	0.20-0.40	0.010 Max	0.08 Max

Width 44.80" Max.
Thickness 0.350" Max
Yield Strength 80,000 ksi Min.
Tensile Strength 105,000 psi Aim

Sumitomo Grade XP 60,000

C	Mn	P	S	Si	Cu
0.15 Max	1.40 Max	0.025 Max	0.010 Max	0.50 Max	1.00 Max
Ni	Cu	Nb	Ca	Al	
0.20 Max	0.50 Max	0.005 Min	Treated	0.01-0.07	

Width 39.37".
Thickness 0.181" Max
Yield Strength 70,000 psi Min. for 0.148" thickness and less
65,000 psi min for over 0.148" thickness
Tensile Strength 80,000 psi Min

This request for amendment is filed pursuant to 19 C.F.R. 351.202(e). Petitioners certify to the Department that this request has been filed on the same day with the U.S. International Trade Commission.

Please contact any of the undersigned should you require clarification of any aspect of this submission.

Respectfully submitted,

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